

31 January 2018

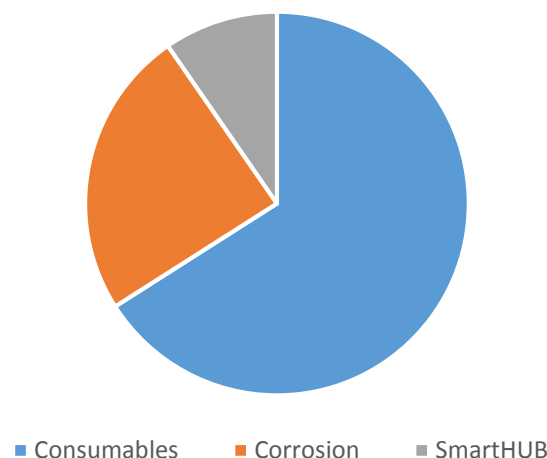
Company Announcements Office
Australian Securities Exchange

QUARTERLY REPORT – APPENDIX 4C

In accordance with ASX Listing Rule 4.7B, Aeris Environmental Ltd (Aeris or the Company) attaches its December 2017 Quarterly Report – Appendix 4C.

- **Aeris is making solid progress in delivering on the strategic objectives announced during late 2017 and at the Annual General Meeting (AGM); commercial activity is ramping up in the United States of America (USA) and the Company is successfully gaining traction in Asia. International sales accounted for 65% of revenue in the second quarter, with material orders from the Middle East, India, Thailand, Vietnam, the Philippines, Europe and the USA.**
- **Strong growth and performance of the global platinum partner programme continues – each agreement underpinned with minimum annual purchase and activity commitments.**
- **Cash receipts from customers of \$622,000 were received in the December 2017 Quarter.**
- **In addition \$425,000 was received in the December 2017 quarter for Aeris’ successful ATO R&D cash-back application, taking total cash receipts in the December 2017 quarter to over \$1,047,000.**
- **\$1,173,000 in revenue was invoiced in the December 2017 quarter and additional confirmed purchase orders of \$543,000 have been received.**
- **Cash receipts in January 2018 were more than \$370,000, showing a continually improving cash flow trend.**
- **Increasing adoption of AerisCoat OEM corrosion prevention and protection continues, with large-scale manufacturing customers placing consistent and multiple orders, with increasing visibility of long-term purchase requirements.**
- **There is an accelerating stream of successful Internet of Things (IOT) SmartHUB projects with ongoing validation of large-scale opportunities in multiple vertical fields.**
- **The Company is in active discussions with potential large-scale customers and well-established companies, which may have a material impact on Aeris’ commercial activities in international markets.**
- **There is continued pleasing growth in the forward sales opportunities pipeline for 2018.**

Sales Revenue by Division - Quarter Ended 31 December 2017



Commentary

AerisGuard Maintenance and Hygiene Consumables

The Company's consumables strategy is focussed on working with leading multinational groups across the main activities of sales and technical support to end customers (platinum partners) with fulfilment and supply logistics across multiple territories (wholesale trade and e-commerce).

Aeris' platinum partnership programme, with over 25 partners confirmed and a pipeline of additional applicants, is a key to accelerating the Company's consumables growth. Aeris deals directly with these specialised groups with existing customers, who formally commit to annual minimum spend and marketing activity to maintain preferred access to the products, pricing and the Company's technical network. The key to this strategy is both developing new customers in parallel with leveraging their existing path to market.

Aeris is successfully expanding its wholesale activities through traditional trade branches in hundreds of locations covering the leading wholesalers across the spectrum of air-conditioning, electrical and industrial, and, importantly, now online through the establishment of an e-commerce platform jointly with the Rexel Group, the leading electrical wholesaler with a potential opportunity of 2,000 branches in 32 countries.

During the quarter, the Company announced the signing of a Master Service Agreement with Sodexo for its environmental hygiene protection systems. These are utilised for the built environment for on-site camps, such as mining (with a launch project for a major group valued at over \$318,000), and the first launch order (over \$230,000) from Aeris' new platinum partner in Vietnam, Ecotis Company Limited.

Recent changes to guidelines and legislation, such as the NSW Government's introduction of mandatory monthly Legionella testing for all cooling tower systems starting on 1 January 2018, and an increasing focus on building hygiene testing and compliance from insurers and industry bodies, places the Company at an advantageous position as an integrated solution provider across the air (coil hygiene and treatment), water (enzymatic biofilm removal) and compliance (SmartHUB and AerisView).

AerisCoat Corrosion Resistant Coatings

Aeris' water-based coatings with a single step application process provide superior long-term performance with green credentials for an expanding number of global customers. In parallel, the Company's platinum distributors are rapidly developing customers for these coatings in Aeris' aftermarket on-site service range. The Company is currently shipping commercial product to several high-profile, leading, air-conditioner manufacturers for OEM application to their value-added coils.

An expanding number of customers are incorporating AerisCoat on-site anti-corrosion protection to their regular maintenance programmes. These customers include ENGIE at the Visy Tumut production facility, and St Benedict's College, Townsville, a leading independent school in Queensland. St Benedict's is managed by Catholic Education Queensland, an organisation that oversees more than 300 schools in Queensland and Aeris was selected in a competitive tender as the superior corrosion protection technology to protect 10 Daikin mini chillers with GJ Walker's air handling units.

During the quarter, the Company was invited to attend a major forum held by the Australasian Corrosion Association Inc. (ACA) at the International Convention Centre in Sydney. The ACA's annual Corrosion and Prevention conference, and trade exhibition, was attended by more than 500 delegates, and brought together corrosion practitioners and researchers, as well as asset owners and operators, from around the world. As a consequence of Aeris' exposure at this highly-regarded event, a number of large-scale potential customers and distributors are on track to evaluate applications for AerisCoat.

Aeris SmartHUB and AerisView

The Company is gaining substantial recognition for the capability of its SmartHUB optimisation, control, communication and visualisation technology with a validated capability in the management of temperature, lighting, ventilation, air quality and, importantly, energy usage, for an increasing number of high-profile clients.

As previously announced, during the quarter Aeris completed an integrated SMART building project at the Kirwan State High School for the Queensland State Government as well installing and commissioning a

proprietary SmartHUB 'optimisation' system on nine large chillers used for process cooling for the largest integrated aluminium producer in South East Asia.

A recent report prepared by a broad coalition of industry associations and leading local governments, including the Green Building Council of Australia, Property Council of Australia, Australian Institute of Refrigeration, Air Conditioning and Heating, Energy Efficiency Council, Facility Management Association of Australia, City of Sydney, City of Melbourne and CitySwitch, highlighted that Australia's cities have over 80,000 buildings, classified as 'mid-tier', that are currently underserved in energy efficiency and reliability. This highlights the opportunity to roll-out Aeris' products.

Aeris SmartHUB can either be implemented on a stand-alone basis, or integrated into large-scale enterprise applications. In either case, recent attendance at the SmartCity's programme in the USA has highlighted a rapidly increasing unmet need to produce data about 'dumb' assets, such as air-conditioning, into an integrated solution sitting considerably above the specifications and performance of consumer-focussed products. The Company is in discussions with multiple potential value-add partners who have technologies that can be integrated into Aeris' SmartHUB system, further extending the Company's technical lead beyond the capability of current OEM participants in this field.

Aeris has identified companies in the USA, Asia and Europe that have a near-term interest in basing their energy and control customer offerings on the Aeris SmartHUB platform, and are now adopting the Company's proprietary consumables range to further differentiate themselves and provide an integrated managed service to their clients.

Finance

Aeris recognises a parallel need to drive an increasing range of activities, including marketing and sales, whilst expanding its financial capability. To this end, it has received a line of credit for \$1,500,000 from three of its Directors, whilst continuing its drive towards profitability.

Summary

The Company demonstrates to its customers and distributors a singular capability to drive efficiency, provide an attractive return on investment, improve indoor environmental quality and extend asset life. Aeris has demonstrated the continued growth in the number of its platinum partners, wholesale distributors and marquee customers whilst its products are being increasingly adopted by high-profile OEM manufacturers.

The entry into the USA market with the Company's complete portfolio has led to early revenue, strong distributor interest and an understanding that the USA market is now maturing in its demand for efficiency and IOT integration, driven by both government initiatives and, increasingly, well-defined programmes by leading corporations.

Aeris Environmental Ltd

Peter Bush

Chief Executive Officer

About Aeris Environmental Ltd

Aeris develops, manufactures and markets patented, environmentally-friendly technology solutions that address the global megatrends of energy efficiency, healthier air, food safety, water quality and long-term materials protection, with core guiding principles of 'clean, green, protect'.

Smart Enzymes and Coatings provide long-term remediation, and prevention of mould, bacteria growth, corrosion and improved hygiene, with OEM, consumer and technical applications.

SmartENERGY provides dramatic and proven energy savings in the range of 19% to 33%, alongside documented improvement in system efficiency (54% to 289% improvement in airflow and up to 40% in coil efficiency), and independently-validated indoor air quality across all air-conditioning and refrigeration systems, with proven immediate cash flow savings.



Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Name of entity

Aeris Environmental Ltd

ABN

19 093 977 336

Quarter ended ("current quarter")

31 December 2017

Consolidated statement of cash flows

| | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|--|--|
| 1 Cash flows from operating activities | | |
| 1.1 Receipts from customers | 622 | 1,142 |
| 1.2 Payments for | | |
| (a) research and development | (69) | (188) |
| (b) product manufacturing and operating costs | (287) | (394) |
| (c) advertising and marketing | (424) | (544) |
| (d) staff costs | (396) | (917) |
| (e) administration and corporate costs | (469) | (838) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 6 | 10 |
| 1.5 Interest and other costs of finance paid | (8) | (13) |
| 1.6 Income tax refund received (including R&D Tax Offset) | 425 | 425 |
| 1.7 Government grants and tax incentives | - | - |
| 1.8 Others (provide details if material) | 2 | 3 |
| 1.9 Net cash from / (used in) operating activities | (598) | (1,314) |

| | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|--|-------------------------------|---------------------------------------|
| 2 Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | (17) | (17) |
| (b) businesses (item 10) | - | - |
| (c) investments | - | - |
| (d) intellectual property | - | - |
| (e) other non-current assets | - | - |
| 2.2 Proceeds from disposal of: | | |
| (a) property, plant and equipment | - | - |
| (b) businesses (item 10) | - | - |
| (c) investments | - | - |
| (d) intellectual property | - | - |
| (e) other non-current assets | - | - |
| 2.3 Loans to other entities | - | - |
| 2.4 Dividends received (see note 3) | - | - |
| 2.5 Other (provide details if material) | - | - |
| 2.6 Net cash from / (used in) investing activities | (17) | (17) |
| 3 Cash flows from financing activities | | |
| 3.1 Proceeds from issue of shares | - | - |
| 3.2 Proceeds from issue of convertible notes | - | - |
| 3.3 Proceeds from exercise of share options | - | - |
| 3.4 Transaction costs related to issues of shares, convertible notes or options | - | - |
| 3.5 Proceeds from borrowings | - | - |
| 3.6 Repayment of borrowings | - | - |
| 3.7 Transaction costs related to loans and borrowings | - | - |
| 3.8 Dividends paid | - | - |
| 3.9 Other (provide details if material) | - | - |
| 3.10 Net cash from / (used in) financing activities | - | - |
| 4 Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 Cash and cash equivalents at beginning of quarter/year | 804 | 1,520 |
| 4.2 Net cash from / (used in) operating activities (item 1.9 above) | (598) | (1,314) |
| 4.3 Net cash from / (used in) investing activities (item 2.6 above) | (17) | (17) |
| 4.4 Net cash from / (used in) financing activities (item 3.10 above) | - | - |
| 4.5 Effect of movement in exchange rates on cash held | - | - |
| 4.6 Cash and cash equivalents at end of quarter | 189 | 189 |

5 Reconciliation of cash and cash equivalents

at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts

| | Current quarter \$A'000 | Previous quarter \$A'000 |
|---|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank | 183 | 799 |
| 5.2 Term Deposits | - | - |
| 5.3 Bank overdrafts | - | - |
| 5.4 Deposits at call | 6 | 5 |
| 5.5 Cash and cash equivalents at end of quarter (item 4.6) | 189 | 804 |

6 Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of loans to these parties included in item 2.3

| Current quarter \$A'000 |
|----------------------------|
| 68 |
| - |

- 6.3 Explanation necessary for an understanding of these transactions

Salaries paid to Peter Bush, Alternate Director and Chief Executive Officer

| |
|----|
| 68 |
|----|

7 Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of loans to these parties included in item 2.3

| Current quarter \$A'000 |
|----------------------------|
| 137 |
| - |

- 7.3 Explanation necessary for an understanding of these transactions

Property outgoings and other charges paid to Ramlist Pty Ltd of which Messrs M Stang and B Stang are Directors.

| |
|---|
| 7 |
|---|

Marketing and operational services provided by Ensol Systems Pty Ltd of which Mr M Stang is a shareholder.

| |
|---|
| - |
|---|

R & D and other expenses paid to Novapharm Research (Australia) Pty Ltd of which Messrs M Stang, B Stang and S Kritzler are Directors.

| |
|----|
| 12 |
|----|

Accounting services provided by Bright Accountants of which Mr Peter Bush is a related party.

| |
|----|
| 19 |
|----|

Rent, Corporate overheads, distribution and administration expenses paid to Regional Healthcare Group Pty Ltd of which Messrs M Stang and B Stang are Directors.

| |
|----|
| 99 |
|----|

8 Financing facilities available

Add notes as necessary for an understanding of the position.

| | Total facility \$A'000 | Amount drawn \$A'000 |
|---------------------------------|---------------------------|-------------------------|
| 8.1 Loan facilities | 1,500 | - |
| 8.2 Credit standby arrangements | - | - |
| 8.3 Other (please specify) | - | - |

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

Loan facilities are provided by Non-Executive Directors Messrs M and B Stang and Mr S Kritzler. These are unsecured loans with interest payable at ATO benchmark rates and has a maturity term of 2 years.

9 Estimated cash outflows for next quarter

| | \$A'000 |
|---|--------------|
| 9.1 Research and development | 30 |
| 9.2 Product manufacturing and operating costs | 110 |
| 9.3 Advertising and marketing | 120 |
| 9.4 Staff costs | 400 |
| 9.5 Administration and corporate costs | 350 |
| 9.6 Other (provide details if material) | - |
| 9.7 Total estimated cash outflows | 1,010 |

10 Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)

| | Acquisitions | Disposals |
|--|--------------|-----------|
| 10.1 Name of entity | n/a | n/a |
| 10.2 Place of incorporation or registration | | |
| 10.3 Consideration for acquisition or disposal | | |
| 10.4 Total net assets | | |
| 10.5 Nature of business | | |

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: *Robert Waring*

(Director/Company Secretary)

Print name: **Robert J Waring**

Date: **31 January 2018**